



The City of Tempe, Arizona (the "City") was incorporated on November 26, 1894. On October 19, 1964, a Home Rule City Charter was ratified by the electors in accordance with Arizona State Law. The City operates under a Council-Manager form of government and provides services as authorized by its charter including: public safety (police, fire, building inspection), highways and streets, public transit, sanitation, water and wastewater, cultural-recreational, public improvements, planning and zoning, and general and administrative.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying summary of the City's significant accounting policies is presented to assist the reader in interpreting the general-purpose financial statements and other data in this report. The general-purpose financial statements of the City have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to governmental units.

A. Reporting Entity

The accompanying general-purpose financial statements include the City and all its component units, collectively referred to as "the financial reporting entity". In accordance with the Governmental Accounting Standards Board's ("GASB") Statement 14, the component units discussed below have been included in the City's financial reporting entity because of the significance of their financial relationships with the City.

City of Tempe Municipal Property Corporation: The Tempe Municipal Property Corporation (the "Municipal Property Corporation") is a nonprofit corporation organized under the laws of the State of Arizona to assist the City in financing its capital improvements projects.

Tempe Sports Authority Corporation: The Tempe Sports Authority Corporation is a nonprofit corporation organized under the laws of the State of Arizona for the express purpose of aiding and assisting the City in financing municipal facilities.

Rio Salado Community Facilities District: The Rio Salado Community Facilities District (CFD) was organized on February 20, 1997, under the laws of the State of Arizona to facilitate development of the Rio Salado Town Lake project.

Data for these component units have been included in the City's general-purpose financial statements utilizing the "blending" method because their sole purpose is to finance public facilities for the City. Blending involves aggregating the component units' data and data from the City at the combined, combining and individual financial statement level. Separately issued financial statements are not available for the City's component units.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid in the City's financial management by segregating transactions related to certain functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The following fund types and account groups are used by the City:

Governmental Fund Types

Governmental Funds are those through which most of the governmental functions of the City are financed. The flow of current financial resources is the measurement focus used which is based upon the determination of changes in financial position rather than upon net income. In addition, all governmental fund types use the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded when



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

susceptible to accrual, i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" is defined as collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the related fund liability is incurred, if measurable.

Revenues susceptible to accrual include property tax, local sales tax, state-shared sales tax, highway user tax, vehicle license tax and interest earned on pooled investments. Licenses and permits, charges for services, fines and forfeitures and miscellaneous revenues are generally recorded as revenues when received in cash because they are not measurable until actually received. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for a specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to the purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

The City reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Governmental funds include the following fund types:

General - The General Fund is the general operating fund of the City. It is used to account for all activities of the City not accounted for in some other fund.

Special Revenue - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general obligation, special assessment, Municipal Property Corporation, debt principal, interest and related costs, except for the debt service accounted for in the Special Revenue Funds and Enterprise Funds.

Capital Projects - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

Proprietary Fund Types

Proprietary funds are used to account for the City's ongoing operations and activities which are similar to those often found in the private sector. Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

GASB No. 20 requires that governments with proprietary activities apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins. Governments are given the option whether or not to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The City has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

Proprietary funds include the following fund types:

Enterprise - Enterprise Funds are used to account for operations, including debt service, (a) that are financed and operated in a manner similar to private businesses - where the intent of the government body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis is financed or recovered primarily through user charges; or (b) where the governing body has determined that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Equity in Joint Venture - The equity method is used to account for the City's equity interest in a joint venture (See Note 7). Under this method, the equity interest is recorded in the balance sheet as a single amount. In addition, the City's share of the net income or loss is reported in the operating statement as a nonoperating revenue or expense.

Internal Service - Internal Service Funds account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

Account Groups

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term obligations.

General Fixed Assets Account Group - This account group is used to account for the City's general fixed assets, except those accounted for in the Proprietary Funds.

General Long-Term Debt Account Group - This account group accounts for the City's amounts to be provided for the retirement of the unmatured principal on its general obligation and special assessment debt, as well as for any amounts to be provided for the retirement of other general long-term obligations.

C. Budgetary Data

Even though Tempe has adopted a biennial budget plan, State law mandates that cities and towns adopt a budget annually. As a result, an operating budget is legally adopted by resolution each fiscal year for the General, Special Revenue (except Grants and Court Awards), Debt Service (except Special Assessments), and Proprietary Funds on a modified accrual basis plus encumbrances. (The separately issued annual budget may be obtained from the City's Financial Services Division, Budget and Research, 20 E. Sixth St., Tempe, AZ, 85280). Certain differences as described in Note 2 exist between the basis of accounting used for budgetary purposes and that used for reporting purposes in accordance with GAAP.

The legal level of budgetary control is the total operating budget as adopted. Management may amend the budget at any level below the total operating budget as adopted. The total operating budget can only be amended by the City Council subject to limitations in the State law (see Note 1D). Supplementary appropriations were necessary during the fiscal year for the General and Highway User Revenue funds.



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Data (Continued)

At the end of each fiscal year, all amounts encumbered and carried forward as part of the gainsharing program are reappropriated along with the following year's operating budget. Any appropriations that are either unexpended, unencumbered, or not carried forward lapse at fiscal year-end.

The City adheres to the following procedures in establishing the budgetary data reflected in the general-purpose financial statements:

- 1) Prior to May 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed revenues and expenditures.
- 2) Public hearings are conducted to obtain taxpayer comments.
- 3) Prior to July 1, the budget is legally enacted through passage of a resolution.

D. Expenditure Limitation

On June 3, 1980, the voters of Arizona approved an expenditure limitation for all local governments, which restricts the annual growth of expenditures to a percentage determined by population and inflation. Certain types of expenditures are excluded from the limitation. Annually, the State Economic Estimates Commission determines the expenditure limitation for each governmental unit. The City's expenditure limitation for the fiscal year ended June 30, 2000, was \$154,198,100.

Local governments may carry forward to later years revenues which are not subject to the expenditure limitation and which were not expended in the year of receipt. The City had carryforwards totaling \$61,736,554 as of June 30, 2000.

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances since the commitments (to be honored in subsequent years) do not constitute current period expenditures or liabilities.

F. Pooled Cash and Investments

Cash resources of the City are combined to form a pool of cash and investments managed by the Accounting Division. Excluded from this pool are certain legally restricted cash resources. In accordance with the City's legally adopted budget, the interest earned on pooled investments is recorded in the General Fund, except for the earnings of Enterprise Funds and other funds whose interest earnings are specifically mandated by law or an outside regulating agency to remain in those funds. Investments are stated at fair value.

The City's investment policy permits investment in the following instruments:

- 1) Obligations of the United States Government, its agencies and instrumentalities;
- 2) Fully insured or collateralized certificates of deposit and other evidences of deposit at banks and savings and loan associations;
- 3) Bankers' acceptances issued by the 10 largest domestic banks and the 20 largest international banks, provided collateral meets the standards set by the Financial Services Director;
- 4) A-1/P-1 rated commercial paper secured by an irrevocable line of credit or collateralized by U.S. government securities;
- 5) Repurchase agreements whose underlying collateral consist of the foregoing;
- 6) Money market funds whose portfolios consist of the foregoing; and
- 7) The State of Arizona's Local Government Investment Pool.



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventories

Inventories consist of expendable supplies held for consumption. The Enterprise Fund inventory and the auto parts inventory in the General Fund are valued at average cost. Other inventories in the General Fund and inventory in the Special Revenue Funds are valued at cost as determined on the first-in first-out ("FIFO") basis. Inventories are accounted for using the consumption method.

H. General Fixed Assets

General fixed assets have been acquired for general governmental purposes. When purchased, assets are recorded as expenditures in the appropriate governmental funds and recorded at cost in the General Fixed Assets Account Group. Contributed assets are recorded in the General Fixed Assets Account Group at fair market value on the date received. Additionally, assets in the General Fixed Assets Account Group are not depreciated.

Fixed assets consisting of certain infrastructure improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the City. Therefore, the purpose of stewardship for capital expenditures is satisfied without recording these assets.

I. Property, Plant and Equipment - Enterprise Funds

Property, plant and equipment owned by the Enterprise Funds are stated at historical cost. Contributed assets are recorded at fair market value on the date received. Depreciation is computed using the straight-line method; the estimated useful lives are as follows:

Buildings	30-70 years
Improvements	10-50 years
Machinery and equipment	5-20 years

J. Compensated Absences

Accumulated unpaid vacation, vested sick pay and vested "Mediflex" supplementary health maintenance benefits are accrued in Governmental and Proprietary Funds. The Governmental Funds' long-term portion of these benefits not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Debt Account Group.

Vacation leave will be absorbed by time off from work or, within certain limitations, may be payable to the employees.

Sick leave is accumulated at the rate of 96 hours (or a proportionate equivalent for employees with work weeks other than 40 hours) per year up to a maximum of 480 hours. Each year, hours accumulated in excess of 480 hours are either converted to cash at a 4-for-1 rate or accumulated in a "sick bank". Upon retirement or resignation, employees with 10 years service are eligible for compensation of up to 50 percent (not more than 240 hours) of accumulated sick leave.

Each employee with 3 years service receives a "Mediflex" allowance each year as reimbursement for all otherwise nonreimbursed health maintenance costs. Benefits are prorated based on length of service and increase up to a maximum of \$650 a year. Unused credits are cumulative and upon employee termination are "banked" at the following rates: after 10 years, 50 percent; after 15 years, 75 percent; after 20 years, 100 percent.



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Long-term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in either a Debt Service Fund or a Special Revenue Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Debt Account Group. For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

L. Interfund Transactions

Interfund transactions consist of identified services performed for other funds or costs billed to other funds and are recorded as expenditures in the fund receiving the services and as a reimbursement, reducing expenditures, in the fund performing the services except for sales of water, sewer and refuse services to other City departments and the Internal Service risk management charges which are recorded as revenue and expenditures in the appropriate funds.

All other interfund transactions are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers.

M. Contributed Capital - Enterprise Fund

Contributed capital, as recorded in the Enterprise Fund, represent primarily federal and state grants received, gifts from the public, subdividers' costs of installing water and sewer lines, service connections installed at the customer's expense, and transfers of equipment from the General Fixed Assets Account Group. Such capital amounts have been segregated from retained earnings due to the nature of their acquisition.

N. Fund Equity

Reserved fund equity is defined as that portion of fund equity that has legally been segregated for specific purposes. Designated fund equity is defined as that portion of fund equity for which the City has made tentative plans for future use of financial resources. Unreserved/Undesignated fund equity is defined as that portion of fund equity which is available for use in a future period.

O. Statements of Cash Flows

The City considers all highly liquid investments (including restricted assets) with an original maturity of three months or less to be cash equivalents. In a statement of cash flows, cash receipts and payments are classified according to whether they stem from operating, noncapital financing, capital and related financing, or investing activities.

P. Comparative Data

Comparative data for the prior year have been presented in the in the accompanying general-purpose financial statements in order to provide an understanding of changes in the City's financial position and operations. Certain prior year data have been reclassified to conform with current year presentation.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. "Memorandum Only" Total Columns on Combined Statements

Total columns on the general-purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate analysis. Data in the columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

R. Use of Estimates

The preparation of general-purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue and expenses/expenditures, and the disclosure of contingent assets and liabilities at the date of the general-purpose financial statements. Actual results could differ from those estimates.

NOTE 2 - BUDGET BASIS OF ACCOUNTING

Arizona state statutes require accounting for certain transactions to be on a basis other than GAAP. The actual results of operations, in accordance with state statutes ("budget basis") are presented in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General, Special Revenue and Debt Service Fund Types to provide a meaningful comparison of actual results with the budget.

The major differences between the budget and GAAP bases are:

- 1) Certain subfunds reported (GAAP) do not have a legally adopted budget.
- 2) Encumbrances are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP).
- 3) Certain revenues and expenditures not recognized in the budgetary year are accrued (GAAP).

Adjustments necessary to convert the fund balances at June 30, 2000, on a GAAP basis to the budget basis are as follows:

	Fund Balances at June 30, 2000		
	General	Special Revenue	Debt Service
GAAP basis	\$81,955,280	40,920,627	7,561,172
Unbudgeted funds:			
Tempe Health Fund	(1,192,909)	-	-
Special Assessment Debt Service	-	-	(259,144)
Grants and Court Awards	-	(1,098,855)	-
Encumbrances reserved at June 30, 2000 but recognized as expenditures for budget purposes	(1,032,370)	(289,396)	-
Expenses and claims payable not recognized as expenditures for budget purposes	9,716,427	684,838	-
Supply inventory expended when purchased for budget, when consumed for GAAP	(278,509)	(615,960)	-
Fund balance designated for self insurance purposes for GAAP and expended for budget purposes	(9,384,204)	-	-
Budget basis	<u>\$79,783,715</u>	<u>39,601,254</u>	<u>7,302,028</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**



NOTE 2 - BUDGET BASIS OF ACCOUNTING (Continued)

Adjustments necessary to convert the results of operations for the fiscal year ended June 30, 2000, from a GAAP to the budget basis are as follows:

	Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses		
	General	Special Revenue	Debt Service
GAAP basis	\$390,623	1,732,588	(794,095)
Unbudgeted funds:			
Tempe Health Fund	426,621	-	-
Special Assessment Debt Service	-	-	76,694
Grants and Court Awards	-	(333,188)	-
Net increase (decrease) in reserve for supply inventory not recognized as appropriable	11,130	(204,227)	-
Increase due to expenditures of amounts encumbered during year ended June 30, 1999	1,251,314	261,767	-
Decrease due to reserved encumbrances during year ended June 30, 2000, recognized as expenditures for budget purposes	(1,032,370)	(289,396)	-
Increase due to expenditures for self insurance expended for GAAP purposes and not expended for Budget purposes	142,123	-	-
Decrease due to accrued expenses and claims payable not recognized as expenditures for budget purposes during the year ended June 30, 1999	(7,174,340)	(500,603)	-
Increase due to accrued expenses and claims payable not recognized as expenditures for budget purposes during the year ended June 30, 2000	9,716,427	684,838	-
Budget basis	<u>\$3,731,528</u>	<u>1,351,779</u>	<u>(717,401)</u>

NOTE 3 - PROPERTY TAXES

Under Arizona law a two-tiered tax system exists: (1) a primary system for taxes levied to pay for current operation and maintenance expenses, and (2) a secondary system for taxes levied to pay principal and interest on bonded indebtedness as well as for the determination of the maximum permissible bonded indebtedness.

Specific provisions are made under each system for determining full cash values of property, the basis of assessment, and the maximum annual tax levies on certain types of property and by certain taxing authorities. Under the primary system, the full cash value of locally-assessed real property (consisting of residential, commercial, industrial, agricultural and unimproved property) may increase by more than 10% only under certain circumstances. Under the secondary system, there is no limitation on annual increases in full cash value of any property. Primary levies are limited to a 2% increase annually plus levies attributable to assessed valuation added as a result of growth and annexation. Secondary tax levies do not have a limitation.

The City's property tax is levied each year on or before the third Monday in August based on the previous January 1 full cash value as determined by the Maricopa County Assessor. Levies are due and payable in two installments on October 1 and March 1, and become delinquent on November 1 and May 1, respectively. Delinquent amounts bear interest at the rate of 16%. Maricopa County, at no charge to the taxing entities, bills and collects all property taxes.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**



NOTE 3 – PROPERTY TAXES (Continued)

Public auctions of properties which have delinquent real estate taxes are held in February following the May 1 date upon which the second installment becomes delinquent. The purchaser is given a Certificate of Purchase issued by the County Treasurer. Five years from the date of sale, the holder of a Certificate of Purchase which has not been redeemed may demand of the County Treasurer a County Treasurer's Deed. Additionally, a lien against property assessed attaches on the first day of January preceding the assessment and levy thereof.

Property taxes are recognized as revenue on the modified accrual basis, i.e., when both measurable and available. Property taxes levied in August 2000 are not available for the current year; accordingly, such taxes will not be recognized as revenue until the subsequent fiscal year. Prior year levies were recorded using these same principles, and remaining receivables from such levies are also recognized as revenue, when available.

NOTE 4 - CASH AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Pooled cash and investments." Pooled cash and investments are stated at fair value, with accrued interest shown under a separate caption on the balance sheet. The change in fair value of the investments is recorded in investment income. Restricted cash and investments are amounts held separately by trustees and amounts segregated due to their source and future intent. Amounts held by trustees are invested in money market securities, maturing within one year from the time of purchase, and are reported at amortized cost.

Deposits

At year-end, the carrying amount of the City's deposits with financial institutions was \$1,958,042 and the bank balance was \$8,092,849. Of the bank balance, \$200,000 was covered by federal depository insurance (Category 1) and \$7,892,849 was covered by collateral held in the pledging bank's trust department in the City's name (Category 2).

Investments

City Charter, Ordinance, and Trust Agreements authorize the City to invest in U.S. government, federal agency, and instrumentality obligations. In addition, the City may invest in certificates of deposit, bankers' acceptances, commercial paper, repurchase agreements, and the State of Arizona's Local Government Investment Pool.

The City's investment in the State of Arizona Local Government Investment Pool (LGIP) is stated at fair value, which approximates the value of the City's pool shares. The LGIP is operated by the Arizona State Treasurer's Office, as authorized by Arizona Revised Statutes, §35-326. Arizona Revised Statutes, §35-312 and §35-313, regulate authorized investments. The State Treasurer's office is under the control of the Arizona State Legislature.

The City's investments at June 30, 2000, stated at fair value, are categorized below to give an indication of the level of risk assumed by the City. Category 1 includes investments that are insured or registered or for which the securities are held or registered by the City or its agent in the City's name. Category 2 includes insured and registered investments for which the securities are held by the bank's trust department in the City's name. Category 3 includes insured and registered investments for which the securities custodian is the counterparty.

	Category 1	Category 2	Category 3	Carrying Amount
U.S. Government Securities	\$109,468,753	1,461,076	81,581,941	192,511,770
Repurchase Agreements	-	12,196,004	-	12,196,004
	<u>\$109,468,753</u>	<u>13,657,080</u>	<u>81,581,941</u>	<u>204,707,774</u>
Investments in State of Arizona Local Government Investment Pool				33,899,707
Investments in Money Market Funds				41,141,412
Total Investments				<u>\$279,748,893</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**



NOTE 4 - CASH AND INVESTMENTS (Continued)

Reconciliation of pooled cash and investments as reported on the Combined Balance Sheet

Carrying Amount of Investments	\$279,748,893
Carrying Amount of Cash Deposits	<u>1,958,042</u>
Total Pooled Cash and Investments	<u>\$281,706,935</u>
 Pooled Cash and Investments – unrestricted	 \$204,038,960
Restricted Cash and Investments	<u>77,667,975</u>
Total Pooled Cash and Investments	<u>\$281,706,935</u>

NOTE 5 - DUE TO/FROM OTHER FUNDS

Due to/from other funds consisted of the following at June 30, 2000:

	Due to	Due from
General Fund	\$ -	7,393,432
Special Revenue Funds:		
Community Development	677,194	-
Grants and Court Awards	627,753	-
Debt Service Funds:		
General Obligation	5,730,806	-
Capital Projects Funds:		
Signals	<u>357,679</u>	<u>-</u>
	<u>\$7,393,432</u>	<u>7,393,432</u>

NOTE 6 - CAPITAL IMPROVEMENT NOTES RECEIVABLE

Capital improvement notes receivable represent loans to provide long-term financing for certain major capital improvement projects. Repayment of the receivable to the Water/Wastewater Fund will be made from the General and Highway User Special Revenue funds. Repayment of the receivable to the General Fund will be made from the Refuse Fund and the Tempe Convention and Visitors Bureau.

At June 30, 2000, capital improvement notes receivable totaled \$4,564,576 in the Water and Wastewater Fund and \$422,083 in the General Fund. The notes bear interest at 7.50% and 6.25%, respectively (see Note 9).

NOTE 7 - JOINT VENTURE

The City participates with the cities of Phoenix, Mesa, Scottsdale, and Glendale in an intergovernmental agreement for the construction, operation and maintenance of jointly used facilities including the 91st Avenue Wastewater Treatment Plant, the Salt River Project Outfall Sewer, the Southern Avenue Interceptor and related transportation facilities. The City of Phoenix is the management agency who has agreed to be responsible for the planning, designing, constructing, operating and maintaining of the jointly used sewerage facilities and to perform the required accounting, administrative and other support functions.

The agreement provides for the formation of a Multicity Subregional Operating Group Committee ("Multicity SROG"), whose members are composed of a representative officially appointed upon motion and order of each city, for the specific purpose of making recommendations concerning specific decisions or courses of action for the jointly used facilities. The Multicity SROG annually reviews and approves the capital improvements and replacements budget and also the operating budget for the jointly used facilities.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**



NOTE 7 - JOINT VENTURE (Continued)

The City has a 14.20% equity interest or purchased capacity in the 91st Avenue Wastewater Treatment Plant and other varied, yet less significant percentages of equity interest in the other jointly used facilities. Purchased capacity is a measure of the right of use owned by the City in the total capacity of the wastewater treatment plant. The City contributes to capital improvements based upon equity interest and contributes to operating and maintenance expenses based upon proportional flow and sewage strength. The City has financed its share of capital improvement costs through the issuance of general obligation bonds, development fees and grants. The bonds are collateralized by a pledge of water revenues and are recorded in the Water and Wastewater Enterprise Fund. The joint venture has not issued any debt.

Summary financial information on the joint venture (GAAP basis) as of and for the fiscal year ended June 30, 1999 (the latest information available), is as follows (in thousands):

Total assets	<u>\$280,747</u>
Total liabilities	<u>\$15,045</u>
Retained earnings	<u>265,702</u>
Total liabilities and retained earnings	<u>\$280,747</u>
Total revenues	\$49,498
Total expenses	<u>(40,680)</u>
Net increase in retained earnings	<u>\$8,818</u>

The City's net investment and its share of operating and maintenance expenses are recorded in the Water and Wastewater Enterprise Fund. The City's equity in joint venture at June 30, 2000, was \$46,857,198; separately audited financial statements for the jointly used wastewater treatment and transportation facilities may be obtained from the Arizona Municipal Water Users Associations, 4041 North Central, Suite 900, Phoenix, Arizona, 85012.

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

A summary of changes in general fixed assets for the fiscal year ended June 30, 2000 are as follows:

	Balance July 1, 1999	Additions	Transfers/ Retirements	Balance June 30, 2000
Land	\$23,452,467	1,090,111	(527,250)	24,015,328
Buildings	62,258,125	10,337,498	-	72,595,623
Improvements	27,394,466	2,159,765	-	29,554,231
Machinery and equipment	67,330,482	10,351,260	(10,442,222)	67,239,520
Construction-in-progress	32,968,343	35,432,612	(21,821,072)	46,579,883
	<u>\$213,403,883</u>	<u>59,371,246</u>	<u>(32,790,544)</u>	<u>239,984,585</u>

General fixed asset construction-in-progress and related construction commitments as of June 30, 2000, are as follows:

	Construction- In-Progress	Commitments
Transit	\$723,903	7,018,042
Park improvements	5,661,886	4,479,429
Fire station renovations and equipment	4,767,388	80,339
Police/Courts facilities	1,691,337	1,298,368
Community development	33,735,369	693,831
	<u>\$46,579,883</u>	<u>13,570,009</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**



NOTE 8 - PROPERTY, PLANT AND EQUIPMENT (Continued)

A comparative summary of Proprietary Fund type property, plant and equipment follows:

	June 30	
	2000	1999
Land	\$10,484,737	10,494,505
Buildings	48,989,669	49,020,419
Improvements	221,499,968	217,455,521
Machinery and equipment	33,097,067	33,389,294
Construction-in-progress	6,571,089	7,376,481
	<u>320,642,530</u>	<u>317,736,220</u>
Less accumulated depreciation	<u>(136,100,041)</u>	<u>(129,228,239)</u>
	<u>\$184,542,489</u>	<u>188,507,981</u>

Proprietary Fund type construction-in-progress and related construction commitments as of June 30, 2000, are as follows:

	Construction- In-Progress	Commitments
Water and Wastewater projects	<u>\$6,571,089</u>	<u>3,460,048</u>

NOTE 9 - LONG-TERM DEBT

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. Bonds issued for proprietary activities are reported in the Proprietary Funds as they are to be repaid from proprietary revenues. In addition, general obligation bonds have been issued to refund general obligation bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds are generally issued as 10-15 year serial bonds, except for refunding issues, with varying amounts of principal maturing each year. General obligation bonds outstanding at June 30, 2000, were as follows:

\$15,000,000 1991 Capital Improvement Serial Bonds due in annual installments of \$175,000 to \$1,380,000 through July 1, 2011; interest at 6.2% to 8.2%	\$700,000
\$10,250,000 1992 Capital Improvement Serial Bonds due in annual installments of \$270,000 to \$1,670,000 through July 1, 2002; interest at 5.0% to 7.0%	1,570,000
\$48,425,000 1992A Capital Improvement Refunding Issue Serial Bonds in annual installments of \$275,000 to \$9,505,000 through July 1, 2003; interest at 3.5% to 6.0%	10,870,000
\$17,500,000 1992B Capital Improvement Serial Bonds due in annual installments of \$275,000 to \$1,630,000 beginning July 1, 1995 through July 1, 2012; interest at 6.0% to 8.0%	4,850,000
\$17,305,000 1993A Capital Improvement Refunding Issue Serial Bonds due in annual installments of \$80,000 to \$5,035,000 through July 1, 2011; interest at 2.6% to 5.4%	16,160,000
\$14,000,000 1994 Capital Improvement Serial Bonds due in annual installments of \$280,000 to \$1,120,000 beginning July 1, 1995 through July 1, 2015; interest at 5.25% to 7.25%	11,630,000
\$26,300,000 1995 Capital Improvement Serial Bonds due in annual installments of \$800,000 to \$2,130,000 beginning July 1, 1997 through July 1, 2015; interest at 4.50% to 6.50%	22,775,000

Continued ➡

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**



NOTE 9 - LONG-TERM DEBT (Continued)

\$14,500,000 1997 Capital Improvement Serial Bonds due in annual installments of \$300,000 to \$1,150,000 beginning July 1, 1998 through July 1, 2017; interest at 5.125% to 6.625%	13,265,000
\$12,755,000 1998 Capital Improvements Refunding Issue Serial Bonds due in annual installments of \$90,000 to \$2,450,000 beginning July 1, 2002 through July 1, 2012; interest at 4.25% to 4.90%	12,755,000
\$37,500,000 1998A Capital Improvement Serial Bonds due in annual installments of \$1,210,000 to \$2,755,000 beginning July 1, 1999 through July 1, 2018; interest at 4.00% to 5.50%	34,430,000
	<u>\$129,005,000</u>

Reconciliation of General Obligation Bonds Payable to Combined Balance Sheet.

General Obligation Bonds	\$129,005,000
Current Enterprise Fund General Obligation Bonds Payable	<u>5,395,000</u>
	<u>\$134,400,000</u>

Special Assessment Bonds Payable with Governmental Commitment. As trustee for improvement districts, the City is responsible for collection of assessments levied against the owners of property within the improvement districts and for disbursement of these amounts for retirement of the respective bonds issued to finance the improvements. At June 30, 2000, the special assessments receivable of \$17,257,468, together with amounts paid in advance and interest to be received over the life of the assessment period, are adequate for the scheduled maturities of the bonds payable and the related interest. The City expects to collect assessments sufficient to cover the remaining \$6,292,532 beginning next fiscal year.

Improvement bonds are collateralized by properties within the districts. In the event of default by the property owner, the City may enforce an auction sale to satisfy the debt service requirements of the improvement bonds. The City is contingently liable on special assessment bonds to the extent that proceeds from auction sales are insufficient to retire outstanding bonds. Special assessment bonds payable with governmental commitment outstanding at June 30, 2000, were as follows:

\$29,405,000 Special Assessment Bonds Payable with Governmental Commitment issued May 1, 1985 through April 6, 1999; maturing through January 1, 2015; due in annual installments of \$5,000 to \$1,655,000; interest at 4.70% to 10.125%	<u>\$23,550,000</u>
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Tempe Municipal Property Corporation Bonds. In 1992, the Corporation issued \$1,400,000 of excise tax revenue bonds. Proceeds were used to renovate and replace the irrigation system at the City's Ken McDonald Municipal Golf Course and pay costs incurred to issue the bonds. On September 1, 1993, the Corporation issued \$16,665,000 of refunding excise tax revenue bonds, series 1993. Proceeds were used to refund certain City of Tempe Municipal Property Corporation bonds and pay costs incurred to issue the bonds.

The City has entered into contracts with the Corporation whereby the City will pay the Corporation amounts sufficient to retire the above Corporation bonds and related interest. The City has collateralized all the bonds of the Corporation by a pledge of all excise taxes (transaction, franchise, privilege, business taxes, state-shared sales and income taxes, fees for licenses and permits, and state revenue-sharing) which the City presently or in the future validly imposes or receives from other entities and which are not earmarked by the contributor for a contrary or inconsistent purpose. The City covenants and agrees that the excise taxes which it presently imposes will continue to be imposed in each fiscal year so that the amount of excise taxes shall be equal to at least three times the total obligation debt service requirements for all outstanding parity obligations in such fiscal year.



NOTE 9 - LONG-TERM DEBT (Continued)

Tempe Municipal Property Corporation Bonds. (Continued)

Tempe Municipal Property Corporation Bonds outstanding at June 30, 2000, are as follows:

\$1,400,000 1992 Excise Tax Revenue Bonds due in annual installments of \$70,000 to \$140,000 through July 1, 2007; interest rate at 5.5% to 7.1%; retirements are to a sinking fund account	<u>\$835,000</u>
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Refunding Certificates of Participation. On June 1, 1999, the City issued \$5,110,000 of Refunding Certificates of Participation (COP). The proceeds were used to refund \$4,775,000 of the 1989 Tempe Sports Authority Facilities Bonds (TSAF), and pay costs incurred to issue the certificates. The City has collateralized the obligations by a pledge of all excise taxes (transaction, franchise, privilege, business taxes, state-shared sales and income taxes, fees for licenses and permits, and state revenue-sharing) which the City presently or in the future validly imposes or receives from other entities and which are not earmarked by the contributor for a contrary or inconsistent purpose. The City covenants and agrees that the excise taxes which it presently imposes will continue to be imposed in each fiscal year so that the amount of excise taxes shall be equal to at least three times the total obligation debt service requirements for all outstanding parity obligations in such fiscal year.

\$5,110,000 1999 Refunding Certificates of Participation due in annual installments of \$400,000 to \$625,000 through July 1, 2009; interest at 4.20% to 4.90%	<u>\$4,710,000</u>
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Tempe Variable Rate Demand Excise Tax Revenue Bonds. On February 12, 1998, the City entered into a purchase agreement with First Trust of Arizona, N.A. to pay costs associated with the construction/acquisition of portions of the City's Rio Salado Project and the acquisition of buses for use in connection with the City's transit system. These costs were financed through the issuance of \$47,100,000 of variable rate demand excise tax revenue obligations (Obligations). The Obligations are remarketed by Dain Rauscher, Inc., serving as the remarketing agent, at an interest rate which would cause the Obligations to have a market value, on the commencement date of such rate period, equal to the principal amount plus accrued interest, but not to exceed 12%.

During the fiscal year ended June 30, 2000, the interest rate on these Obligations was reset on a daily basis and interest paid monthly. The City has the option of converting from the daily rate to either a weekly rate or a term rate, including a term rate period through the final maturity of the Obligations. In the event that the Obligations are converted to a term rate (other than daily or weekly), the Obligations are subject to mandatory tender for purchase.

The City has entered into a standby obligation purchase agreement with State Street Bank and Trust Company and U.S. Bank Trust, N.A. (acting as trustee and paying agent). The stated expiration date of the standby obligation purchase agreement is February 28, 2003, with extension request options available to the City thereafter. State Street Bank is providing liquidity and is obligated to purchase the Obligations that are tendered for purchase and not remarketed. The semi-annual fee paid to State Street Bank for this liquidity support is an annualized rate of .095% of the average daily available commitment for principal and interest. As of June 30, 2000, there were no draws outstanding or bonds presented for debt service payments under this standby obligation.

If the standby obligation purchase agreement were to be exercised and all outstanding obligations were purchased by State Street Bank because they could not be remarketed, the maximum repayment liability would be \$49,926,000.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**



NOTE 9 - LONG-TERM DEBT (Continued)

Tempe Variable Rate Demand Excise Tax Revenue Bonds. (Continued)

The average annualized interest rate paid on these Obligations during the fiscal year ended June 30, 2000 was 3.82%. The repayment of these bonds, assuming a maximum interest rate of 12% through final maturity, is as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
2001	\$ -	4,860,000	4,860,000
2002	-	4,860,000	4,860,000
2003	1,200,000	4,860,000	6,060,000
2004	1,300,000	4,716,000	6,016,000
2005	1,400,000	4,560,000	5,960,000
Thereafter	36,600,000	46,476,000	83,076,000
	<u>\$40,500,000</u>	<u>70,332,000</u>	<u>110,832,000</u>

The City has collateralized the bonds by a pledge of all excise taxes (transaction, franchise, privilege, business taxes, state-shared sales and income taxes, fees for licenses and permits, and state revenue-sharing) which the City presently or in the future validly imposes or receives from other entities and which are not earmarked by the contributor for a contrary or inconsistent purpose. The City covenants and agrees that the excise taxes which it presently imposes will continue to be imposed in each fiscal year so that the amount of excise taxes shall be equal to at least three times the total obligation debt service requirements for all outstanding parity obligations in such fiscal year.

Capital Improvement Notes. Capital improvement notes represent borrowings to provide long-term financing for certain major capital improvement program projects (see NOTE 6).

Capital improvement notes outstanding at June 30, 2000 were as follows:

\$11,440,000 capital improvement notes issued in 1990 due to the Water and Wastewater Enterprise Fund from the General Fund and Highway Users Special Revenue Fund and payable in equal annual installments through January 1, 2011; interest at 7.50%	\$4,564,576
\$1,000,000 capital improvement notes issued in 1993 due to the General Fund from the Refuse Enterprise Fund and payable in equal annual installments through January 1, 2003; interest at 6.25%	365,796
\$3,850,000 capital improvement note issued in 1998 due to Maricopa County from the Capital Projects Funds payable in three annual payments ranging from \$750,000 to \$2,073,000 through July 2001; non-interest bearing	3,100,000
\$15,775,000 1999A capital improvement excise tax obligations due in three semi-annual payments ranging from \$5,120,000 to \$5,375,000 through January 1, 2001; interest at 3.75% to 5.00%	5,300,000
\$17,310,000 2000A capital improvement excise tax obligations due in semi-annual payments from January 1, 2001, through July 1, 2002, and then annual payments from July 1, 2003, through July 1, 2016. A final payment is then due on July 1, 2020. Payments range from \$245,000 to \$2,880,000; interest at 4.825% to 5.625%.	17,310,000
	<u>\$30,640,372</u>

The City has collateralized the 1999A and 2000A capital improvement excise tax obligations by a pledge of all excise taxes (transaction, franchise, privilege, business taxes, state-shared sales and income taxes, fees for licenses and permits, and state revenue-sharing) which the City presently or in the future validly imposes or receives from other entities and which are not earmarked by the contributor for a contrary or inconsistent purpose. The City covenants and agrees that the excise taxes which it presently imposes will continue to be imposed in each fiscal year so that the amount of excise taxes shall be equal to at least three times the total obligation debt service requirements for all outstanding parity obligations in such fiscal year.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**



NOTE 9 - LONG-TERM DEBT (Continued)

Capital Leases. The City has entered into capital lease agreements which include options to purchase. The leased assets and related obligations are accounted for in the General Fixed Assets Account Group and the General Long-Term Debt Account Group, respectively. The cost of capital lease assets totaled \$7,679,492 at June 30, 2000. The following is a schedule of future minimum lease payments, together with the net present value of the minimum lease payments as of June 30, 2000.

	Fiscal Years Ending June 30,	General Long-Term Debt Account Group
	2001	\$1,686,977
	2002	767,049
	2003	129,944
	2004	129,944
Total minimum lease payments		2,713,914
Less: interest at 5.75% to 11.00%		(260,224)
Present value of future minimum lease payments		<u>\$2,453,690</u>

Statutory Debt Limitation. In the absence of more restrictive bond authorization ballot limitations, the City is subject to state statutory limitations on the amount of net bonded debt (exclusive of revenue and special assessment bonds and purchase contracts) it may have outstanding. The statutory debt limitation is 20 percent of the secondary assessed valuation for purposes of water, sewer, open space and artificial lighting and 6 percent of the secondary assessed valuation for all other purposes.

At June 30, 2000, the 20 percent debt limitation was \$248,094,360 providing a debt margin of \$160,799,360 and the 6 percent debt limitation was \$74,428,308 providing a debt margin of \$51,235,000. The authorized unissued debt subject to the statutory limitations of 20 percent and 6 percent at June 30, 2000, was \$183,992,668.

Bond Covenants. The various bond indentures contain certain limitations and restrictions on annual debt service requirements, maintenance and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum revenue bond coverages. The City is in compliance with all such significant limitations and restrictions as of June 30, 2000.

Debt Service Requirements to Maturity. The following is a summary of debt service cash requirements to maturity for all fixed rate general obligation bonds, special assessment bonds, Tempe Municipal Property Corporation bonds and Certificates of Participation including interest of \$51,801,305, \$8,977,612, \$201,573, and \$1,162,670, respectively.

Fiscal Years Ending June 30,	General Obligation Bonds			Tempe Municipal Property Corp.	Certificates of Participation	Total
	Enterprise Funds	General Long- Term Debt Account Group	Special Assessment			
2001	\$8,992,408	7,752,210	2,955,859	147,405	654,165	20,502,047
2002	9,035,452	7,736,420	2,908,056	146,555	655,685	20,482,168
2003	7,789,991	7,237,992	2,861,902	145,780	651,365	18,687,030
2004	7,294,949	7,682,415	2,821,904	149,675	650,940	18,599,883
2005	5,220,342	6,166,277	2,704,827	148,015	654,160	14,893,621
Thereafter	48,292,880	57,604,969	18,275,064	299,143	2,606,355	127,078,411
	<u>\$86,626,022</u>	<u>94,180,283</u>	<u>32,527,612</u>	<u>1,036,573</u>	<u>5,872,670</u>	<u>220,243,160</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**



NOTE 9 - LONG-TERM DEBT (Continued)

Changes in Long-Term Debt. The following is a summary of changes in long-term debt, excluding capital improvement notes and capital leases, of the City for the fiscal year ended June 30, 2000:

	General Obligation		Special Assessments	Tempe Municipal Property Corporation		COP	Tempe Variable Rate Demand Excise Tax Revenue Bonds	Total
	Governmental	Enterprise		Governmental	Enterprise	Governmental	Governmental	
Long-term debt at June 30, 1999	\$77,890,000	74,995,000	24,955,000	1,812,068	3,142,932	5,110,000	47,100,000	235,005,000
Retirements:								
July 1, 1999	(7,355,000)	(7,000,000)	-	(591,743)	(783,257)	-	(6,600,000)	(22,330,000)
January 1, 2000	-	-	(1,405,000)	(603,255)	(706,745)	-	-	(2,715,000)
	70,535,000	67,995,000	23,550,000	617,070	1,652,930	5,110,000	40,500,000	209,960,000
Less: Current portion	(4,130,000)	(5,395,000)	-	(617,070)	(817,930)	(400,000)	-	(11,360,000)
Long-term debt at June 30, 2000	\$66,405,000	62,600,000	23,550,000	-	835,000	4,710,000	40,500,000	198,600,000

Detail for the changes in long-term debt, excluding capital improvement notes and capital leases, for the Enterprise Fund type is as follows:

	General Obligation	Tempe Municipal Property Corporation		
	Water/ Wastewater	Water/ Wastewater	Golf	Total
Long-term debt at June 30, 1999	\$74,995,000	\$2,122,932	1,020,000	3,142,932
Retirements:				
July 1, 1999	(7,000,000)	(693,257)	(90,000)	(783,257)
January 1, 2000	-	(706,745)	-	(706,745)
	67,995,000	722,930	930,000	1,652,930
Less: Current portion	(5,395,000)	(722,930)	(95,000)	(817,930)
Long-term debt at June 30, 2000	\$62,600,000	\$ -	835,000	835,000

Changes in Long-Term Liabilities. The following changes occurred in liabilities reported in the General Long-Term Debt Account Group during the fiscal year ended June 30, 2000:

	Balance June 30, 1999	Additions	Reductions	Balance June 30, 2000
Accrued employee benefits	\$ 2,887,687	442,604	-	3,330,291
Insurance claims	708,355	256,562	-	964,917
General obligation bonds	70,535,000	-	(4,130,000)	66,405,000
Special assessment bonds payable with governmental commitment	24,955,000	-	(1,405,000)	23,550,000
Tempe Municipal Property Corporation bonds	1,220,325	-	(1,220,325)	-
Tempe Certificates of Participation	5,110,000	-	(400,000)	4,710,000
Tempe Variable Rate Demand Excise Tax Revenue Bonds	40,500,000	-	-	40,500,000
Capital Improvement notes payable	19,976,551	12,275,000	(8,497,088)	23,754,463
Capital leases	3,503,015	1,386,176	(2,435,501)	2,453,690
	\$169,395,933	14,360,342	(18,087,914)	165,668,361



NOTE 10 - BONDS TO BE PAID FROM ASSETS HELD IN TRUST

Advance Bond Refundings

Future debt service on refunded bonds has been provided through advance refunding bond issues. Under an advance refunding arrangement, refunding bonds are issued and the net proceeds, plus any additional resources that may be required, are used to purchase securities issued or guaranteed by the United States government. These securities are then deposited in an irrevocable trust under an escrow agreement which provides that all proceeds from the trust will be used to fund the principal and interest payments of the previously issued bonded debt being refunded. The trust deposits have been computed so that the securities in the trust, along with future cash flow generated by the securities, will be sufficient to service the previously issued bonds.

Bonds which have been advance refunded (and thus not included in the debt of the City) and are still outstanding as of June 30, 2000, are as follows:

\$15,000,000 general obligation bonds issued in 1991 and refunded in 1994	\$9,610,000
\$15,000,000 general obligation bonds issued in 1991 and partially refunded in 1998	745,000
\$10,250,000 general obligation bonds issued in 1992 and partially refunded in 1998	1,670,000
\$17,500,000 general obligation bonds issued in 1992 and partially refunded in 1998	9,620,000
Total bonds advance refunded	<u>\$21,645,000</u>

NOTE 11 - RETIREMENT AND PENSION PLANS

The City contributes to four separate defined benefit pension plans for the benefit of all full-time employees and elected officials. The Arizona Public Safety Personnel Retirement System administers separate agent multiple-employer retirement plans for all full-time police and fire personnel. The Arizona Public Safety Personnel Retirement System also acts as fund administrator for the Elected Officials Retirement Plan, a multiple-employer cost-sharing plan for elected officials of the City. The Arizona State Retirement System administers a multiple-employer cost-sharing plan for all other full-time employees. The City has met all required payment dates for these plans.

Arizona Public Safety Personnel Retirement System (Full-time Police and Fire Employees)

A. Plan Description

The City contributes to the Arizona Public Safety Personnel Retirement System ("PSPRS"), an agent multiple-employer public safety employee retirement system that acts as a common investment and administrative agent for the various fire and police agencies within the state. All police and fire personnel are eligible to participate in the plan. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The PSPRS is jointly administered by the Fund Manager and 162 Local Boards and was established by Title 38, Chapter 5, Article 4 of the Arizona Revised Statutes (A.R.S). The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Arizona Public Safety Personnel Retirement System, 1020 East Missouri, Phoenix, Arizona, 85014 or by calling 1-602-255-5575.



NOTE 11 - RETIREMENT AND PENSION PLANS (Continued)

Arizona Public Safety Personnel Retirement System (Full-time Police and Fire Employees) (Continued)

B. Funding Policy

PSPRS members are required to contribute 6.65% for fire and 7.65% for police of their annual covered salary and the City is required to contribute an actuarially determined rate. The rate for fiscal year 1999-00 was 3.43% for fire personnel and 6.27% for police members. Benefit and contribution provisions are established by law and may be amended only by the State of Arizona Legislature (A.R.S. Section 38-843).

C. Annual Pension Cost

Police personnel contributed \$1,360,880 and fire personnel \$573,954 during fiscal year 1999-00. For 2000, the City's annual pension cost of \$1,115,403 for police and \$296,040 for fire was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 1999 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 9% investment rate of return (b) projected salary increases of 6.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 3.0% per year, depending on age, attributable to seniority/merit. The actuarial value of the PSPRS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 4-year period. PSPRS's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at July 1, 1999 was 20 years.

D. Three Year Trend Information for PSPRS (Latest Available Information):

Police

<u>Fiscal Years Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
1997	\$939,286	100%	-
1998	1,168,130	100	-
1999	975,885	100	-

Fire

<u>Fiscal Years Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
1997	\$320,392	100%	-
1998	213,370	100	-
1999	314,684	100	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**



NOTE 11 - RETIREMENT AND PENSION PLANS (Continued)

Arizona Public Safety Personnel Retirement System (Full-time Police and Fire Employees) (Continued)

E. Required Supplementary Information (Unaudited)

Schedule of Funding Progress (Latest Information Available):

Police

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a % of Covered Payroll
1997	\$47,795,520	46,825,563	102.1%	\$(969,957)	13,009,151	N/A
1998	53,268,549	52,538,032	101.4	(730,517)	14,470,770	N/A
1999	62,764,558	61,206,221	102.5	(1,558,337)	16,658,167	N/A

Fire

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a % of Covered Payroll
1997	\$43,757,954	34,379,141	127.3%	\$(9,378,813)	7,119,473	N/A
1998	47,605,106	37,489,470	127.0	(10,115,636)	7,624,428	N/A
1999	54,999,099	41,989,922	131.0	(13,009,177)	8,195,445	N/A

Arizona State Retirement System (All Other Full-time Employees)

A. Plan Description

The City has elected to participate in the Arizona State Retirement System (ASRS or The System), a multiple-employer cost-sharing retirement plan, which provides retirement benefits for all full-time employees, except police and fire employees. The plan provides for retirement, disability, health insurance premium benefits, and death and survivor benefits. The System was established by the State of Arizona to provide pension benefits for employees of the state and employees of participating political subdivisions and school districts. The System is administered in accordance with Title 38, Chapter 5, of the Arizona Revised Statutes. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Arizona State Retirement System, 3300 North Central Avenue, Suite 1300, Phoenix, Arizona, 85012 or by calling 1-602-240-2000.

B. Funding Policy

The Arizona Revised Statutes provide statutory authority for determining the employees' and employers' contribution amounts as a percentage of covered payroll. Employers are required to contribute at the same rate as employees. Although the statutes prescribe the basis of making the actuarial calculation, the Arizona legislature is able to change the contribution rate from that actuarially determined.

Covered employees contributed 2.17% of their annual compensation to the plan, as actuarially determined and set by State statute and the City contributed an amount equal to employee contributions each pay period. The City's contributions to the ASRS for the years ended June 30, 2000, 1999, and 1998 were \$1,088,696, \$1,297,573, and \$1,288,017 respectively, equal to the required contributions for each year.



NOTE 11 - RETIREMENT AND PENSION PLANS (Continued)

Elected Officials Retirement Plan (Mayor and City Council)

A. Plan Description

The City's Mayor and Councilmembers participate in the Elected Officials Retirement Plan ("EORP") a multiple employer, cost-sharing pension plan. The Fund Manager of the Arizona Public Safety Personnel Retirement System ("PSPRS") is the administrator for the EORP which was established by Title 38, Chapter 5, Article 3 of the Arizona Revised Statutes to provide pension benefits for state and county elected officials, judges and certain city elected officials. EORP provides retirement benefits as well as death and disability benefits. The authority to amend Title 38, Chapter 5, Article 3 is reserved for the State Legislature. EORP issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Elected Officials Retirement Plan, 1020 East Missouri Avenue, Phoenix, Arizona, 85014 or by calling 1-602-255-5575.

B. Funding Policy

The retirement plan's funding policy (required by State Statutes) provides for periodic employer contributions at actuarially determined rates and employee contributions of 7.00% of their annual covered salary. The employer rate for 1999-00 was 10.22%. The City's contributions to EORP for the fiscal years ended June 30, 2000, 1999, and 1998 were \$12,483, \$10,556, and \$14,412, respectively, equal to the required contributions for each year. The City's employees contributed \$8,551, \$8,306, and \$7,981 for the same time period.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 11, the City offers the continuation of group health insurance benefits, in accordance with Resolution 90.63 of the City Council, to all retired employees who meet the following eligibility requirements: (a) be at least sixty (60) years of age, (b) have at least 10 years of service, (c) be enrolled in one of the City's group health insurance plans, and (d) at the time of retirement, be or have been eligible to receive benefits from one of the City sponsored state retirement plans. Currently, 321 retirees meet those eligibility requirements.

The City offers three health plans to its retirees; Tempe Basic and Tempe Preferred Provider Organization (PPO), which are the City's self-insurance plans, and the CIGNA Health Maintenance Organization (HMO) plan. The benefits provided by the group health insurance are the same as those offered to active employees.

The City and the pension administrators subsidize the health insurance premium of eligible retirees depending on type of health plan chosen, coverage selected, and years of service. Approximately 67% of retiree premiums were subsidized by the City during the fiscal year. The City's accounting policy with regard to expenditure recognition of these health insurance benefits is to record the benefits when they are paid. During the fiscal year, expenditures of \$803,137 were recognized for post retirement health care.

NOTE 13 - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The City's fiduciary responsibility is that of exercising "due care" in selecting a third-party administrator.

Federal legislation requires that Section 457 plan assets be held in trust for employees. This change, means that employee assets held in Section 457 plans are no longer the property of the City and subject to claims of the City's general creditors. Therefore, the Deferred Compensation Agency assets are not included in the City's general purpose financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2000



NOTE 14 - COMMITMENTS

All construction commitments are disclosed either in the general-purpose financial statements as reserves for encumbrances or in the notes to the financial statements.

NOTE 15 - FUND EQUITY

Reservations and designations of retained earnings and fund balances at June 30 were as follows:

	Government Fund Types				Proprietary Fund Types	Totals	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	2000	1999
Contributed capital	\$ -	-	-	-	124,904,569	124,904,569	124,904,569
Retained Earnings:							
Reserved							
Capital improvements	-	-	-	-	20,933,331	20,933,331	26,184,146
Asset replacement	-	-	-	-	28,481,296	28,481,296	11,820,530
Total Reserved Retained Earnings	-	-	-	-	49,414,627	49,414,627	38,004,676
Unreserved	-	-	-	-	59,135,948	59,135,948	58,965,827
Fund Balances:							
Reserved							
Encumbrances	1,061,877	356,125	-	17,249,144	-	18,667,146	13,036,098
Debt service							
General obligation bonds	-	-	7,302,028	-	-	7,302,028	8,019,429
Special assessment bonds	-	-	259,144	-	-	259,144	335,838
Inventories	278,509	615,960	-	-	-	894,469	701,372
Notes receivable	422,083	-	-	-	-	422,083	529,960
Total Reserved Fund Balances	1,762,469	972,085	7,561,172	17,249,144	-	27,544,870	22,622,697
Unreserved							
Designated							
Self-insurance purposes	9,384,204	-	-	-	-	9,384,204	9,526,327
Health self-insurance	1,192,909	-	-	-	-	1,192,909	1,619,530
Rainy day	8,000,000	-	-	-	-	8,000,000	8,000,000
Capital projects	4,953,361	7,482,466	-	38,888,467	-	51,324,294	51,914,584
West Tempe improvements	46,800	-	-	-	-	46,800	46,800
Rio Salado	10,000,000	-	-	-	-	10,000,000	10,000,000
Commercial enhancement	1,500,000	-	-	-	-	1,500,000	1,500,000
Year 2000 compliance	-	-	-	-	-	-	750,000
Arbitrage rebate	500,000	-	-	-	-	500,000	500,000
Powerline undergrounding	2,000,000	-	-	-	-	2,000,000	-
Carryforward appropriations	4,000,000	1,600,000	-	-	-	5,600,000	-
Total designated	41,577,274	9,082,466	-	38,888,467	-	89,548,207	83,857,241
Undesignated	38,615,537	30,866,076	-	(548,905)	-	68,932,708	69,829,496
Total Unreserved Fund Balances	80,192,811	39,948,542	-	38,339,562	-	158,480,915	153,686,737
Total Fund Equity	<u>\$81,955,280</u>	<u>40,920,627</u>	<u>7,561,172</u>	<u>55,588,706</u>	<u>233,455,144</u>	<u>419,480,929</u>	<u>398,184,506</u>

Reservations of Retained Earnings

At June 30, 2000, amounts were reserved for the following purposes: Capital improvements - for purposes of future capital improvements; and, Asset replacement - for purposes of future asset replacement.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**



NOTE 15 - FUND EQUITY (Continued)

Reservations of Fund Balances

At June 30, 2000, amounts were reserved for the following purposes: encumbrances - represent purchase obligations outstanding at the end of the fiscal year; debt service - for payment of future amounts of principal and interest due; inventories - the value of materials and supplies needed to maintain adequate levels of operating supplies; notes receivable - represents notes receivable for capital improvement projects.

Designations of Fund Balances

At June 30, 2000, amounts were designated for the following purposes: self-insurance - amount designated for payment of material, unanticipated claims against the City; health self-insurance - amount designated for payment of health self-insurance claims; rainy day - amounts designated for unforeseen events; capital projects - amount designated for future capital projects; west Tempe improvements - amounts designated for improvements in west Tempe; Rio Salado - amount designated for the Rio Salado project; Commercial enhancement - fulfills development agreement commitment within the Community Facilities District; arbitrage rebate - amount designated for future arbitrage rebate; Powerline undergrounding - amounts designated for potential future payment to Arizona Public Service; Carryforward appropriations - amounts designated for future appropriations.

NOTE 16 - SEGMENTS OF ENTERPRISE ACTIVITIES

The City's enterprise activities operate under three segments which are financed primarily by user charges. The key financial data for the year ended June 30, 2000, is as follows:

	Water and Wastewater	Refuse	Golf Course	Total
Operating revenues	\$46,395,935	9,723,750	2,226,486	58,346,171
Depreciation expense	8,605,427	1,206,122	353,562	10,165,111
Operating income (loss)	16,518,612	(51,785)	150,613	16,617,440
Net loss from joint venture	(3,096,353)	-	-	(3,096,353)
Operating transfers from other funds	623,967	-	23,191	647,158
Operating transfers to other funds	(1,584,126)	(137,482)	(486,041)	(2,207,649)
Net income (loss)	11,959,666	(89,563)	(290,031)	11,580,072
Acquisition of capital assets	(4,112,107)	(2,013,963)	(73,549)	(6,199,619)
Investment in joint venture	14,324,825	-	-	14,324,825
Net increase (decrease) in cash and cash equivalents	922,210	(1,354,795)	(102,593)	(535,178)
Net working capital	26,433,311	1,162,872	1,452,662	29,048,845
Total assets	308,938,402	6,623,577	5,399,175	320,961,154
Long-term debt	69,120,112	365,796	835,000	70,320,908
Retained earnings	102,447,061	3,225,634	2,877,880	108,550,575
Total fund equity	223,784,073	5,405,753	4,265,318	233,455,144

NOTE 17 - RISK FINANCING ACTIVITIES

The City is exposed to risks arising from general liability, automobile liability (physical damage and bodily injury), property liability, workers compensation, and employee health claims.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**



NOTE 17 - RISK FINANCING ACTIVITIES (Continued)

The City has established a Risk Management Fund (internal service fund) to account for and finance its uninsured risks of loss. Amounts are paid into the internal service fund by all other funds and are available to pay claims and to fund claim reserves. As with any risk retention program, the City is contingently liable in respect to claims beyond those actuarially projected. These interfund premiums are used to reduce the amount of claim expenditures reported in the internal service fund.

The City is self-insured for the first \$1.0 million for general liability and automobile liability claims. The City is self-insured for property, health claims, employer's liability and statutory workers' compensation claims up to \$227.5 million, \$5.7 million, \$1.0 million, and statutory limitation amounts, respectively. The self-insured retention per incident is \$100,000, \$125,000, \$250,000 and \$250,000, respectively. Coverage in excess of the amounts noted above is provided through the purchase of commercial insurance. During the year, there were no significant reductions in the amounts of excess coverage purchased, nor has the City experienced any settlements in excess of insurance coverage over the past ten years.

At fiscal year end, the estimated, unpaid insurance claims liability was based on a historical analysis and a case-by-case review of all the pending claims and the claims incurred but not reported. A liability for a claim was established if information indicated that it was probable that a liability had been incurred as of June 30, 2000, and that the amount of the loss was reasonably estimable. At June 30, 2000, the City had \$9,384,204 of General Fund balance designated for self-insurance purposes and \$1,192,909 designated for health insurance which includes any potential liability for claims incurred but not reported.

The following is a summary of changes in insurance claims payable for the last two fiscal years:

	June 30, 1999	Claims Incurred Net of Change in Estimates	Payments	June 30, 2000
General liability	\$220,507	1,108,219	(125,771)	1,202,955
Automobile liability	1,116,338	97,736	(72,422)	1,141,652
Property liability	179,041	86,942	(195,861)	70,122
Workers' compensation	440,196	819,905	(860,599)	399,502
Health insurance	397,376	5,299,582	(5,288,713)	408,245
	<u>\$2,353,458</u>	<u>7,412,384</u>	<u>(6,543,366)</u>	<u>3,222,476</u>

	June 30, 1998	Claims Incurred Net of Change in Estimates	Payments	June 30, 1999
General liability	\$1,333,053	(1,074,860)	(37,686)	220,507
Automobile liability	600,608	622,648	(106,918)	1,116,338
Property liability	153,055	56,683	(30,697)	179,041
Workers' compensation	301,375	730,951	(592,130)	440,196
Health insurance	334,340	4,899,886	(4,836,850)	397,376
	<u>\$2,722,431</u>	<u>5,235,308</u>	<u>(5,604,281)</u>	<u>2,353,458</u>



NOTE 18 - CONTINGENT LIABILITIES

The City is subject to a number of lawsuits, investigations, and other claims that are incidental to the ordinary course of its operations. Although the City Attorney does not currently possess sufficient information to reasonably estimate the amounts of the liabilities to be recorded upon the settlement of such claims and lawsuits, some claims could be significant to the City's operations. While the ultimate resolution of such lawsuits, investigations, and claims cannot be determined at this time, in the opinion of City management, based on the advice of the City Attorney, the resolution of these matters will not have a material adverse effect on the City's financial position.

NOTE 19 - RELATED ORGANIZATION

The Industrial Development Authority (IDA) is a non-profit corporation established by the City in 1981 to promote industry and develop trade by inducing manufacturing, industrial and commercial enterprises to locate and remain in Tempe. The Board of Directors of the IDA is appointed by the City Council; however, the City does not have a financial benefit/burden relationship nor is the City able to impose its will on the IDA as defined in GASB Statement No. 14; therefore, data for the IDA is not included in the City's general-purpose financial statements. Separately issued financial statements are not available for the IDA.

NOTE 20 – DEFICIT IN FUND BALANCE

The Signals Capital Projects Fund had a deficit fund balance of \$455,943 at June 30, 2000. The deficit will be funded by general obligation bonds to be issued during fiscal year 2000/01.